



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
OWSLEY COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2000

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
OWSLEY COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2000

The Auditor of Public Accounts has completed the Owsley County Fiscal Court audit for fiscal year ended June 30, 2000. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances decreased by 17,956 from the prior fiscal year, resulting in a cash surplus of \$33,411 as of June 30, 2000. Revenues decreased by \$481,333 from the prior year and disbursements decreased by \$454,540.

Report Comments:

- The County Should Properly Prepare The Quarterly Reports Using The Original Budget And Budget Amendments Approved By Department For Local Government
- The County Should Properly Prepare Budget Amendments
- The County Should Include All Grant Proceeds In The County's Budget And In The County's Financial Statements
- The County Should Implement A Purchase Order System In Accordance With The Requirements Established By The Department For Local Government
- The County Should Properly Account For Encumbrances
- The Fiscal Court Should Review The Administrative Code Annually As Required By KRS 68.005
- The County Judge/Executive's Salary Should Be Paid In Accordance With The Maximum Salary Authorizations Set By The Department For Local Government

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Jimmie W. Herald, Owsley County Judge/Executive

Members of the Owsley County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Owsley County, Kentucky, as of June 30, 2000, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. Those financial statements are the responsibility of the Owsley County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Owsley County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2000, of Owsley County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting described above.

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Jimmie W. Herald, Owsley County Judge/Executive

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In accordance with Government Auditing Standards, we have also issued our report dated February 4, 2002, on our consideration of Owsley County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Owsley County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- The County Should Properly Prepare The Quarterly Reports Using The Original Budget And Budget Amendments Approved By The Department For Local Government
- The County Should Properly Prepare Budget Amendments
- The County Should Include All Grant Proceeds In The County's Budget And In The County's Financial Statements
- The County Should Implement A Purchase Order System In Accordance With The Requirements Established By The Department For Local Government
- The County Should Properly Account For Encumbrances
- The Fiscal Court Should Review The Administrative Code Annually As Required By KRS 68.005
- The County Judge/Executive's Salary Should Be Paid In Accordance With The Maximum Salary Authorizations Set By The Department For Local Government

Respectfully submitted,



Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -
February 4, 2002

OWSLEY COUNTY OFFICIALS

Fiscal Year Ended June 30, 2000

Fiscal Court Members:

Jimmie W. Herald	County Judge/Executive
Bill Hall	Magistrate
Bobby Smith	Magistrate
Jesse Bishop, Jr.	Magistrate

Other Elected Officials:

Wade Rasner	County Attorney
Harold Hollan	Jailer
Sid Gabbard	County Clerk
Mike Mayes	Circuit Court Clerk
Paul Short	Sheriff
Monica Barrett	Property Valuation Administrator
Eddie Issacs	Coroner

Appointed Personnel:

Marvin McIntosh	County Treasurer
Wanda Holbrook	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

OWSLEY COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2000

Assets and Other Resources

Assets

General Fund Type

General Fund:			
Cash	\$	5,957	
Road and Bridge Fund:			
Cash		4,061	
Jail Fund:			
Cash		1,073	
Local Government Economic Assistance Fund:			
Cash		19,794	
EFTPS - Payroll - Cash		7,297	
Withholding Taxes Sheriff and Clerk Account Fund - Cash		446	
Retirement Account - Cash		4,789	
			\$ 43,417

Special Revenue Fund Type

Forestry Fund:			
Cash	\$	509	
Ambulance Fund:			
Cash		2,017	2,526
Total Assets and Other Resources			\$ 45,943

Liabilities and Fund Balances

Liabilities:

General Fund Type

EFTPS - Payroll	\$	7,297	
Withholding Taxes Sheriff and Clerk Account Fund		446	
Retirement Account		4,789	
			\$ 12,532

The accompanying notes are an integral part of the financial statements.

OWSLEY COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2000
 (Continued)

Liabilities and Fund Balances (Continued)

Fund Balances

Reserved:

Special Revenue Fund Type

Forestry Fund	\$	509
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Unreserved:

General Fund Type

General Fund	\$	5,957	
Road and Bridge Fund		4,061	
Jail Fund		1,073	
Local Government Economic Assistance Fund		<u>19,794</u>	30,885

Special Revenue Fund Type

Ambulance Fund		<u>2,017</u>
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Total Liabilities and Fund Balances	\$	<u><u>45,943</u></u>
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The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

OWSLEY COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2000

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 1,696,917	\$ 293,236	\$ 785,745	\$ 33,441
Transfers In	253,847	140,847	10,000	93,000
Lease-Purchase Proceeds	45,360	45,360		
Total Cash Receipts	<u>\$ 1,996,124</u>	<u>\$ 479,443</u>	<u>\$ 795,745</u>	<u>\$ 126,441</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 1,760,233	\$ 395,186	\$ 670,584	\$ 130,344
Transfers Out	253,847	88,000	133,785	
Total Cash Disbursements	<u>\$ 2,014,080</u>	<u>\$ 483,186</u>	<u>\$ 804,369</u>	<u>\$ 130,344</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (17,956)	\$ (3,743)	\$ (8,624)	\$ (3,903)
Cash Balance - July 1, 1999	<u>\$ 51,367</u>	<u>\$ 9,700</u>	<u>\$ 12,685</u>	<u>\$ 4,976</u>
Cash Balance - June 30, 2000	<u>\$ 33,411</u>	<u>\$ 5,957</u>	<u>\$ 4,061</u>	<u>\$ 1,073</u>

The accompanying notes are an integral part of the financial statements.

OWSLEY COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
Fiscal Year Ended June 30, 2000
(Continued)

General Fund Type		Special Revenue Fund Type				
Local Government Economic Assistance Fund	Forestry Fund	Local Government Economic Development Fund	Ambulance Fund	Community Development Block Grant Fund	Area Development Fund	
\$ 93,677 10,000	\$ 1,805	\$ 73,827	\$ 68,921	\$ 339,203	\$ 7,062	
<u>\$ 103,677</u>	<u>\$ 1,805</u>	<u>\$ 73,827</u>	<u>\$ 68,921</u>	<u>\$ 339,203</u>	<u>\$ 7,062</u>	
 \$ 78,489 25,000	 \$ 1,866	 \$ 73,827	 \$ 69,089	 \$ 340,848	 \$ 7,062	
<u>\$ 103,489</u>	<u>\$ 1,866</u>	<u>\$ 73,827</u>	<u>\$ 69,089</u>	<u>\$ 340,848</u>	<u>\$ 7,062</u>	
 \$ 188 \$ 19,606	 \$ (61) \$ 570	 \$ \$	 \$ (168) \$ 2,185	 \$ (1,645) \$ 1,645	 \$	
<u>\$ 19,794</u>	<u>\$ 509</u>	<u>\$ 0</u>	<u>\$ 2,017</u>	<u>\$ 0</u>	<u>\$ 0</u>	

The accompanying notes are an integral part of the financial statements.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2000

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Owsley County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Owsley County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Owsley County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Owsley County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Owsley County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and Local Government Economic Assistance Fund (LGEA).

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Forestry Fund, Local Government Economic Development Fund, Ambulance Fund, Community Development Block Grant Fund, and the Area Development Fund of the Fiscal Court are reported as Special Revenue Fund Types.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Owsley County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000
(Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.28 percent

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2000, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Loan Receivable

The Fiscal Court entered into an agreement with Allen's Ambulance Service for the purchase of an ambulance. The agreement stated that the Fiscal Court would purchase an ambulance and would finance it on behalf of Allen's Ambulance Service. The County is responsible for making the required monthly payments. Allen's ambulance service is required to reimburse the County for the monthly payments. The County paid off the obligation on the loan in a previous year. However, Allen's Ambulance Service did not reimburse the County for all of the payments as was required under the terms of the agreement. As of June 30, 2000, Allen's Ambulance Service owed the County \$5,422 in unpaid loan payments. Allen's Ambulance Service has subsequently paid off this obligation.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000
(Continued)

Note 5. Lease-Purchase Agreements

The county has entered into the following lease-purchase agreements:

Description	Purchase Date	Maturity Date	Interest Rate	Balance June 30, 2000
Tractor-Mower	June 18, 1997	August 1, 2000	5.90%	\$ 10,667
Ambulance	November 4, 1998	November 20, 2005	5.10%	\$ 36,900
Ambulance	March 2, 2000	December 1, 2000	5.75%	\$ 36,805
Voting Machines	March 2, 2000	December 1, 2000	5.75%	\$ 48,195

Note 6. Insurance

For the fiscal year ended June 30, 2000, Owsley County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

OWSLEY COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2000

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 361,995	\$ 293,236	\$ (68,759)
Road and Bridge Fund	784,235	785,745	1,510
Jail Fund	33,007	33,441	434
Local Government Economic Assistance Fund	94,580	93,677	(903)
<u>Special Revenue Fund Type</u>			
Forestry Fund	2,240	1,805	(435)
Local Government Economic Development Fund	500,000	73,827	(426,173)
Ambulance Fund	77,500	68,921	(8,579)
Community Development Block Grant Fund	417,935	339,203	(78,732)
Area Development Fund	7,062	7,062	
Totals	<u>\$ 2,278,554</u>	<u>\$ 1,696,917</u>	<u>\$ (581,637)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 2,278,554
Add: Budgeted Prior Year Surplus			12,684
Leasing Program			<u>45,360</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 2,336,598</u>

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SCHEDULE OF OPERATING REVENUE

OWSLEY COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2000

Revenue Categories	<u>GOVERNMENTAL FUND TYPE</u>		
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type
Taxes	\$ 223,592	\$ 221,817	\$ 1,775
In Lieu Tax Payments	11,719	11,719	
Intergovernmental Revenues	1,395,123	952,595	442,528
Charges for Services	5,977	5,977	
Miscellaneous Revenues	55,739	9,254	46,485
Interest Earned	4,767	4,737	30
Total Operating Revenue	<u>\$ 1,696,917</u>	<u>\$ 1,206,099</u>	<u>\$ 490,818</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

OWSLEY COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2000

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 342,721	\$ 339,676	\$ 3,045
Protection to Persons and Property	165,273	138,400	26,873
General Health and Sanitation	9,208	9,115	93
Social Services	3,150	3,150	
Roads	539,216	388,356	150,860
Debt Service	13,050	13,039	11
Capital Projects	124,300	161,080	(36,780)
Administration	134,943	221,787	(86,844)
TOTAL BUDGET - GENERAL FUND TYPE	\$ 1,331,861	\$ 1,274,603	\$ 57,258

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 7,062	\$	\$ 7,062
Protection to Persons and Property	79,740	70,955	8,785
General Health and Sanitation	417,935	340,848	77,087
Debt Service	500,000	73,827	426,173
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	\$ 1,004,737	\$ 485,630	\$ 519,107

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

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Members of the Owsley County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Owsley County, Kentucky, as of and for the year ended June 30, 2000, and have issued our report thereon dated February 4, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Owsley County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2000-01 through 2000-07.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Owsley County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Owsley County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2000-01 through 2000-05.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider the reportable conditions referred to above to be material weaknesses.

This report is intended solely for the information and use of management, and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
February 4, 2002

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

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Members of the Owsley County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal
Control Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Owsley County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2000. Owsley County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Owsley County's management. Our responsibility is to express an opinion on Owsley County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Owsley County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Owsley County's compliance with those requirements.

In our opinion, Owsley County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2000.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Owsley County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Owsley County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
February 4, 2002

FINDINGS AND QUESTIONED COSTS

OWSLEY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2000

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Owsley County.
2. Five reportable conditions disclosed during the audit of the financial statements are reported in the Independent Auditor's Report. These conditions were reported as material weaknesses.
3. Seven instances of noncompliance material to the financial statements of Owsley County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Owsley County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Owsley County reported in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grant - Owsley County Water Expansion Project, CFDA #14.228.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Owsley County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS AND NONCOMPLIANCES

Reference Number 2000-01

The County Should Properly Prepare The Quarterly Reports Using The Original Budget And Budget Amendments Approved By The Department For Local Government

The Fiscal Court's financial statements were incorrect. The original budget and budget amendments listed on the Quarterly Reports should agree with the original budget and budget amendments approved by the Department for Local Government (DLG). There were numerous errors where the original budget and budget amendments did not agree with the original budget and budget amendments approved by DLG. The budget must be presented as it was approved by DLG and the Fiscal Court. We recommend that the Fiscal Court properly prepare the 4th Quarter Report in the future, by properly including the original budget and budget amendments as they were approved by DLG.

County Judge/Executive Jimmie W. Herald's Response:

We will make these adjustments.

OWSLEY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2000
(Continued)

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

REPORTABLE CONDITIONS AND NONCOMPLIANCES (Continued)

Reference Number 2000-02

The County Should Properly Prepare Budget Amendments

The auditor determined that the budgeted receipts and expenditures on the second budget amendment do not agree. Budgeted receipts are \$115,422 and budgeted expenditures are \$115,922. This is a difference of \$500 more being budgeted for expenditures than was budgeted for receipts. We recommend that budgeted receipts and expenditures agree on all future budget amendments in order to be in compliance with the Uniform System of Accounts.

County Judge/Executive Jimmie W. Herald's Response:

This was a mistake in addition.

Reference Number 2000-03

The County Should Include All Grant Proceeds In The County's Budget And In The County's Financial Statements

We found where the Fiscal Court received a grant for \$9,999, which was a pass-through grant to the Sheriff's Office. This item was included on the state payments list as a county payment. However, it was not listed on the county's receipts ledger. Documentation obtained from the bank revealed that it was deposited directly into the Sheriff's bank account, even though the check was made out to the Fiscal Court. We recommend that all of these checks be deposited into the Fiscal Court's bank account and passed through to the Sheriff. This will provide an audit trail and it is also a requirement to be in compliance with the Uniform System of Accounts. This understates the receipts and disbursements posted to the Treasurer's ledgers. The County is ultimately responsible for the pass-through grants and should also monitor them to ensure that all grant terms are being complied with. The County should have obtained a budget amendment for the grant proceeds and should have posted the receipts and disbursements to the ledgers. We have included this item on the County's financial statements as if they had received it. We recommend that the County comply with the Uniform System of Accounts by budgeting all grant proceeds and by posting them to the County's ledgers.

County Judge/Executive Jimmie W. Herald's Response:

We didn't realize that we had received this check. The Sheriff's department cashed this check.

OWSLEY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2000
(Continued)

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

REPORTABLE CONDITIONS AND NONCOMPLIANCES (Continued)

Reference Number 2000-04

The County Should Implement A Purchase Order System In Accordance With The Requirements Established By The Department For Local Government

The purchase order system in place is not sufficient to meet the new Department for Local Government (DLG) requirements for Fiscal Courts. These requirements are stated below and taken from the DLG Handbook *Instructional Guide for County Budget Preparation & State Local Finance Officer Policy Manual*.

- A. No purchases shall be made without an approved purchase order.
- B. Purchase orders should be issued by the county judge/executive, or his designee, from only one location.
- C. Blank purchase orders shall not be issued.
- D. All purchase orders shall be accounted for and pre-numbered.
- E. All purchase orders shall indicate the appropriation account number to which the claim will be posted.
- F. No purchase order shall be issued in an amount that exceeds the available line item appropriation.

The County made purchases without getting an approved purchase order. The purchase orders were not accounted for properly. The purchase orders did not indicate the appropriation account number to which the claim will be posted. We recommend that the Fiscal Court adopt the purchasing procedures set forth by the DLG.

County Judge/Executive Jimmie W. Herald's Response:

We will work toward correcting our purchase order system.

Reference Number 2000-05

The County Should Properly Account For Encumbrances

The Fiscal Court did not prepare a list of encumbrances for Fiscal Year Ending June 30, 2000. This is a requirement of the DLG. The Treasurer should prepare a list of any unpaid purchase orders by fund from the purchase order journal at the close of each quarter. The list should include the P. O. number and the amount. We recommend that the Fiscal Court adopt the purchasing procedures set forth by the DLG.

County Judge/Executive's Response:

By improving our purchase order system it will help us reach this goal.

OWSLEY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2000
(Continued)

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

REPORTABLE CONDITIONS AND NONCOMPLIANCES (Continued)

Reference Number 2000-06

The Fiscal Court Should Review The Administrative Code Annually As Required By KRS 68.005

The fiscal court did not review the administrative code during the fiscal year as required by KRS 68.005(2), which states that the fiscal court shall review the county administrative code annually during the month of June and may by a two-thirds majority of the fiscal court amend the County's administrative code at that time. We recommend compliance with this statute in the future.

County Judge/Executive Jimmie W. Herald's Response:

We will present the administrative code to the Fiscal Court.

Reference Number 2000-07

The County Judge/Executive's Salary Should Be Paid In Accordance With The Maximum Salary Authorizations Set By The Department For Local Government

The County Judge/Executive's salary was not paid in accordance with the salary schedule set by The Department for Local Government (DLG). The County Judge/Executive received \$54,384 as salary during calendar year 2000. The salary set by DLG for calendar year 2000, is \$55,070. This results in an additional \$686 being due to the County Judge/Executive in order to be in compliance with the DLG salary schedule. We recommend that the additional \$686 be paid to the County Judge/Executive in order to be in full compliance with the salary approved by DLG.

County Judge/Executive Jimmie W. Herald's Response:

We will correct this.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

None.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

OWSLEY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2000

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		\$
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through State Department for Local Government: Community Development Block Grants- Owsley County Water Expansion Project (CFDA #14.228)	B-96-DC-21-0001 (007)	340,848
<u>U.S. Department of Justice</u>		
Passed-Through State Justice Cabinet: Local Law Enforcement Block Grant Program CFDA # Unavailable	LLEB-204-1/99	9,999
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs: Disaster and Emergency Assistance Grants- Coordinator Salary (CFDA #83.503)		2,197
Total Cash Expenditures of Federal Awards		\$ 353,044

OWSLEY COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2000

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis.

Note 2 - As required by this grant agreement, all program moneys received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

Note 3 - The federal expenditures for the Community Development Block Grant - Owsley County Water Expansion Project consist of grants to subrecipients as follows:

<u>Subrecipient</u>	<u>Number</u>	<u>Pass-through Grant Amount</u>
City of Booneville	B-96-DC-21-0001 (007)	\$ 340,848

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

OWSLEY COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2000

Appendix A

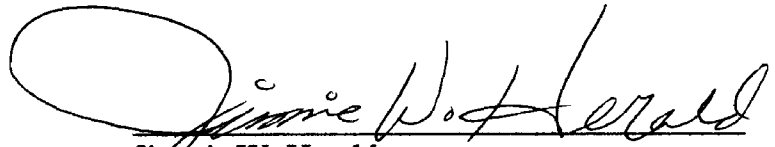
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

OWSLEY COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2000

The Owsley County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in cursive script, reading "Jimmie W. Herald", written over a horizontal line.

Jimmie W. Herald
County Judge/Executive

A handwritten signature in cursive script, reading "Marvin McIntosh", written over a horizontal line.

Marvin McIntosh
County Treasurer